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RUEHBU/AMEMBASSY BUENOS AIRES 2534  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHINGTON DC

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DEPT FOR WHA/AND, WHA/EPSC, EB/IFD/OFD  
TREASURY FOR OASIA/INL  
COMMERCE FOR 4331/MAC/WH  
DEPT PLEASE PASS TO AID

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SUBJECT: GARCIA'S PROMISE OF "WATER FOR EVERYONE"

REF: A) Lima 2532 B) Lima 2534 (C) State 128599

1. (U) Summary. President Alan Garcia has made his Agua Para Todos (Water for Everyone) program a top priority. The \$5 billion program sets an ambitious five-year target of reducing by half the five million Peruvians without access to potable water. It includes nine major water treatment, infrastructure, and credit projects in Lima and five other provinces. Financing will be by government austerity measures, donor assistance, private concessions and a water guaranty fund. Garcia faces strong pressure to demonstrate results before the November regional/local elections, especially in the southern and jungle regions that are Humala strongholds. End Summary.

#### Peru's Water Crisis

2. (U) Roughly one quarter of Peru's 28 million do not have piped water and almost one half have no access to sewage or drainage systems. Peru's narrow coastal plain, the hub of Peru's industry and export agriculture, and where over 70 percent of Peruvians live, annually experiences water shortages. Rapid population growth, deforestation, glacial melting, inefficient water management, and poorly built water transportation infrastructure in the highlands and jungle have all exacerbated Peru's water shortage. Communities often resort to purchasing trucked water in the black market. Over 40 percent of the country's water production is unaccounted for -- due to leakages and illegal connections -- and over 70 percent of the water/sewage systems built in the 1990s are inoperative.

#### Agua Para Todos

3. (U) In his July 28 inauguration speech, President Garcia introduced his Agua Para Todos (Water for Everyone) program and set an ambitious target of reducing by half the five million Peruvians without access to potable water in the next five years. The \$5 billion program aims to modernize Peru's infrastructure and expand water services to the country's neediest communities. It prioritizes nine major water treatment, infrastructure, and credit projects in Lima and five other provinces. Garcia announced that financing has already been secured by international donors -- including the InterAmerican Development Bank, the Community of Andean Nations, and the governments of Japan, Germany, Canada, and Switzerland. Funding will also be provided through government austerity measures (including salary cuts), concessions and a water guaranty fund. Performance-based incentives and public-private partnerships will round out the program.

14. (U) Housing and Sanitation Minister Hernan Garrido Lecca (Septel) spearheads the program and described it to DepEconCouns on July 19. The first priorities outside of Lima are inadequate drainage in the major jungle cites -- Puno, Iquitos, Pucallpa and Tambopata. Garcia proposes to build sewage systems and water treatment plants to decontaminate key water sources like Amazon tributaries and Lake Titicaca that have been contaminated by debris and raw sewage. Garrido Lecca stressed that contaminated water affects health and education; prioritizing water is the first step in advancing Garcia's health and education goals.

15. (U) A second priority is to strengthen existing infrastructure projects to prevent water loss and address declining agricultural production, such as relining the Tinajones canal in Lambayeque. A third priority is to expand potable water access to small towns (3,000-8,000 inhabitants) by providing credit to local water companies.

#### Long-term Sustainability?

15. (SBU) Garcia's ambitious water program has sparked debate about its long-term sustainability. SUNASS, Peru's national water regulatory agency, argues that Garcia's targets in Lima will be unsustainable if water-user rates are not increased by 44 percent over the next five years. (Note: Recent water infrastructure projects have failed to recover costs because of the politically sensitive issue of raising water-user rates, especially during the election season. End Note.) Garcia's team agrees that increasing water rates will be necessary but remains vague about the details. Water guaranty fund director Jose Salazar told DepEconCouns in conversations since July 28 that the program is funded for the next few years, but he is hoping for some expertise from the EPA to help design the fund.

#### Comment:

17. (SBU) Program success will depend on financing, but as important will be success in regulating water companies, enforcing rate increases and ensuring efficient spending. For example, SEDAPAL, Lima's state-owned water company, has been rated among the worst water service providers in Latin America. The U.S./Peru Free Trade Agreement and associated Environmental Cooperation Agreement will provide opportunities to cooperate with Peru to achieve water goals. USAID has several water initiatives in various stages of implementation and will continue to prioritize water projects as a foundation for rural development. Whatever the feasibility of Garcia's promises, Garrido Lecca is an impressive leader for this program.

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